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The Manufacturers Hanover
# Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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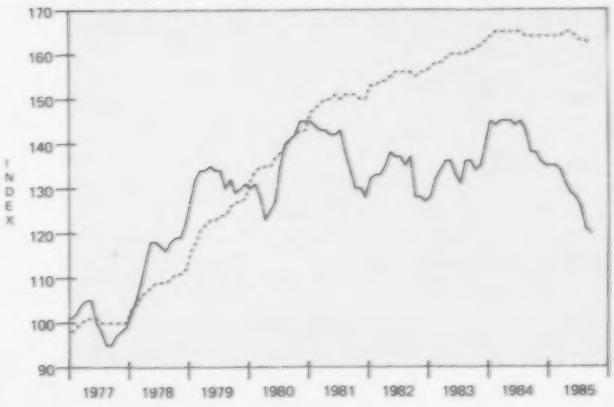
## A Big Crop Of Problems . . .

Over the past three years Americans have enjoyed one of the strongest business expansions in the postwar period. Rising levels of employment, production and incomes, combined with low inflation rates, have brought a tide of prosperity to many sectors of the economy. However, these good times have bypassed some segments of the economy almost completely, one of the more important of which is agriculture. American farmers are battling the worst economic crisis since the days of the Great Depression, and there is little on the horizon to suggest that their plight will improve any time soon.

Falling farmgate prices, record crop production and inventories, declining exports, and plummeting farm-asset values are plaguing the U.S. agricultural sector. During the 12 months ending in September, farm commodities' prices dropped 13 percent, falling to their lowest level since November, 1978. What is more, hefty government surpluses of farm products, a bumper harvest this year, increased agricultural production abroad and the strong dollar are all threatening to depress prices even further. And while the downward farm-price spiral should ease the pressure on consumers' wallets as well as help keep inflation in check for the economy as a whole, it threatens to further aggravate the financial difficulties of farmers—a problem compounded by the fact that farmers' expenses are not falling in step with prices they received for their output. In the year ending September, farmers' costs of operation edged down only 1.2 percent (see chart).

As a result of this, the U.S. Department of Agriculture projects that net farm income in 1985 should total somewhere between $23 billion and $27 billion, down sharply from $34½ billion posted last year. The decline in farm income has a direct impact on farmers' ability to service debt. The nation's approximately 2.3 million farmers held $212 billion of debt as of the beginning of this year and it is estimated that nearly a fifth of this total was owed by farmers considered either insolvent or in extreme financial difficulties. Another quarter was held by farmers said to be in serious financial difficulties, indicating that just about one-half of the nation's farm debt outstanding falls into one of these two groups.

INDEX OF PRICES RECEIVED BY FARMERS (LINE) VS. INDEX OF PRICES PAID BY FARMERS (DOT), <1977=100>




## . . . Plagues American Farmers . . .

One reason for farmers' financial distress is the falling value of farm assets. The value of farmland, which accounts for about three quarters of the total value of all farm assets, declined 12 percent during the year ending in April—the largest one-year drop since the Great Depression. This tumble marked the fourth consecutive year of falling prices for farmland. Since farmland was often used as collateral to get loans, plunging land values have eroded the collateral backing up loans made during the 1970s and early 1980s, when land prices were rising. Prospects for a recovery in land values in the near term are not promising. An oversupply of farmland continues to weigh heavily on the market.

Nor can farmers expect help from their traditional export markets. Last year, U.S. agricultural exports stood 13 percent below their record level set in 1981. During the first three quarters of 1985, agricultural exports were 21½ percent below exports for the same period last year. Numerous factors such as sluggish economic growth worldwide, liquidity

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problems in developing countries, increased agricultural production in major importing countries—not to mention the strong dollar—have contributed to this poor export performance. As a result, the U.S. market share of global agricultural exports dipped from 20 percent in 1981, when it peaked, to about 17 percent today.

### . . . And Farm-Related Industries

The farm plight is affecting the health of Main Street in rural America, where banks, agricultural machinery suppliers and a wide variety of other businesses depend on farmers for their income. A growing number of farm bankruptcies and loan defaults have severely affected the health of some of the nation's agricultural banks—typically small, rural commercial banks where some 25 percent of loan portfolios are tied to farm debt. So far this year, 46 agricultural banks have failed, up from 25 in all of 1984.

However, agricultural banks are not the only ones caught by farmers' financial problems. The Farm Credit System, an amalgam of 37 banks in 12 districts and a number of local area associations, and the nation's largest single holder of farm debt, with $74 billion in its loan portfolio representing one-third of all farm debt, announced recently that it needed Washington's help to support its portfolio.

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | 10/16/85 | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 178.894 | + .908 | +21.573 |
| Loans to Depository Inst. | .935 | – .414 | – 5.887 |
| Float | .499 | – .356 | – .952 |
| Total Reserve Bank Credit | 193.726 | + .382 | +15.844 |
| Treasury Deposits with Federal Reserve Banks | 2.945 | + .036 | – .757 |
| Currency in Circulation | 189.805 | + 1.041 | +12.561 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 125.104 | – .674 | + 8.997 |
| | 10/9/85 | | |
| Member Bank Reserves: | | | |
| Total Reserves Held | 43.746 | + .666 | + 5.670 |
| Excess (Deficiency) | .673 | + .033 | – .231 |
| Net Borrowed Reserves | .095 | + .220 | – .019 |

| Monetary Aggregates† | | % Change Since Three Months Ago* | % Change Since Year Ago |
|---|---|---|---|
| M1 (10/7/85) | 611.5 | + 10.1‡ | + 11.2‡ |
| M2 (September '85) | 2,528.4 | + 9.0 | + 9.5 |
| M3 (September '85) | 3,163.4 | + 7.8 | + 9.0 |
| Domestic Nonfinancial Debt (2nd Q'85) | 6,317.3 | + 12.2 | + 13.6 |

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

## New York Money Market

| Offering Rates 10/18/85 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡U.S. Treasury Bills | 7.16% | 7.28% | 7.38% |
| * Federal Agencies | 8.20 | 8.45 | 9.16 |
| * Municipal Notes—High Grade (46% Taxable Equivalent) | 8.33 | 8.61 | 9.26 |
| Negotiable Time CDs Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market—Prime | 7.90 | 7.97 | 8.25 |

| ‡Finance Company Paper—Prime | | ‡* Bankers' Acceptances | |
|---|---|---|---|
| 5- 14 days | 7.85% | Nov. | 7.78% |
| 15- 29 days | 7.85 | Dec. | 7.78 |
| 30- 59 days | 7.85 | Jan. | 7.78 |
| 60- 89 days | 7.80 | Feb. | 7.78 |
| 90-179 days | 7.80 | Mar. | 7.78 |
| 180-239 days | 7.80 | Apr. | 7.78 |
| 240-270 days | 7.80 | | |

| ‡Industrial Paper—Prime | | †Federal Funds Effective Rate | 7.95% |
|---|---|---|---|
| 30- 89 days | 7.83% | | |
| 90-120 days | 7.80 | | |

‡Discount basis. * Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 3rd Q'85n | $ 3,916 | $ 3,853 | $ 3,695 |
| Gross National Product (1972 Dollars)* | 3rd Q'85n | $ 1,685 | $ 1,671 | $ 1,645 |
| Percent Change, Annual Rate | 3rd Q'85n | 3.3 | 1.9 | 1.6 |
| Change in Consumer Prices* | Aug '85 | 2.4% | 2.4% | 4.8% |
| Change in Producer Prices* | Sep '85 | – 7.2% | – 3.6% | 0.0% |
| Civilian Employment (Thousands of Persons)† | Sep '85 | 107,544 | 107,172 | 105,394 |
| Unemployment as % of Civilian Labor Force† | Sep '85 | 7.1% | 7.0% | 7.4% |
| Personal Income* | Sep '85n | $ 3,209 | $ 3,199 | $ 3,068 |
| Leading Indicators Composite Index (1967=100)† | Aug '85 | 170.1 | 169.0 | 164.4 |
| Industrial Production Index (1977=100) † | Sep '85n | 124.7 | 124.8 | 123.3 |
| Net Change in Consumer Installment Credit † | Aug '85 | $ 6.31 | $ 6.25 | $ 6.02 |
| U.S. Merchandise Trade Balance † | Aug '85 | –$ 9.90 | –$ 10.51 | –$ 10.09 |
| Plant and Equipment Expenditures* | 4th Q'85 | $387.40(a) | $389.54(a) | $368.29 |
| Private Housing Starts (Thousands of Units)* | Sep '85n | 1,583 | 1,746r | 1,669 |
| New Construction Expenditures* | Aug '85 | $ 344.0 | $ 340.2 | $ 321.2 |
| Total Business Inventories † | Aug '85n | $ 577.9 | $ 580.1r | $ 561.7 |
| Total Business Sales † | Aug '85n | $ 429.1 | $ 422.5r | $ 413.3 |

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

The agriculture-related industries are also feeling the effects of farmers' financial stress. Farm equipment manufacturers, for example, reduced the number of production workers by more than half since the industry's employment peak in 1979. This is not surprising, since unit retail sales of major farm equipment items have declined precipitously since 1979. For example, sales of tractors with 40 or more horsepower declined nearly nine percent in the first eight months of this year compared with the same period in 1984. This decline came on the heels of a 55 percent plunge in unit sales of these types of tractors between 1979 and 1984.

The origins of today's problems can be traced to the 1970s and early 1980s. It was an unusually prosperous period for U.S. agriculture. Rising commodity prices in that period boosted farm income and provided both the incentive and the financial means for expansion. In addition, low or sometimes negative real interest rates made it advantageous to finance a large share of farm expansion with borrowed money. And finally, acting on expectations of rising inflation, farmers acquired additional land, bidding up its price in the process. By 1981, the average price of an acre of farmland in the United States had nearly quadrupled compared with 1970. Currently, however, the average price of an acre of farmland stands 19 percent below its 1981 peak value. H

## Short Term Paper Outstanding

(Millions of Dollars)

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **Time Deposits of $100,000 or more Weekly Reporting Banks** | | | |
| Nationwide (10/2/85) | 157,948 | – 234 | – 2,199 |
| New York City (10/9/85) | 33,621 | + 676 | – 698 |
| **Commercial Paper** (10/9/85) | 282,092 | + 2,969 | +51,420 |

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (10/2/85) | 254,787 | + 1,492 | + 6,811 |
| New York City (10/9/85) | 59,702 | – 900 | – 5,395 |

**Total Loans and Leases Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (10/2/85) | 695,923 | + 8,465 | + 63,229 |
| New York City (10/9/85) | 153,576 | – 922 | + 10,998 |

## Financial Markets

| | Friday 10/18/85 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 7.39% | – .06 | – 2.64 |
| 180-Day Bills† | 7.62 | – .10 | – 3.08 |
| Longest Bills† | 7.88 | – .16 | – 3.12 |
| **Recent Issues:** | | | |
| 9s 9/30/87 | 8.75 | – .19 | |
| 9⅝s 6/30/89 | 9.37 | – .26 | |
| 10½s 8/15/95 | 10.14 | – .19 | |
| 10⅝s 8/15/15 | 10.42 | – .18 | |
| **Municipals:** | | | |
| Bond Buyer–20 Bond Index* (10/17/85) | 9.12% | – .13 | – 1.12 |
| Blue List Total ($ Million) | $1,684 | – $ 23 | + $ 105 |
| 30-Day Visible Supply ($ Million) | $4,941 | + $358 | + $ 809 |
| Total | $6,625 | + $335 | + $ 914 |
| **Corporates:** | | | |
| Moody's Aa Composite (10/17/85) | 11.46% | – .05 | – 1.69 |
| 30-Day Visible Supply ($ Million) | $1,882 | – $553 | + $1,492 |
| **Stocks:** | | | |
| **Dow-Jones Averages:** | | | |
| Industrials | 1,368.84 | + 28.90 | + 142.91 |
| Transportation | 660.58 | + 13.11 | + 117.84 |
| Utilities | 154.44 | + .36 | + 9.64 |
| 65 Stocks | 553.09 | + 9.98 | + 65.75 |
| **Standard and Poor's 500 Stocks** | 187.04 | + 2.76 | + 24.36 |
| **N.Y.S.E. Composite Index** | 108.85 | + 2.29 | + 11.99 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 110,768 | +14,722 | – 11,196 |

* 46% Taxable equivalent 16.89%.

† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 10/18/85 | Week Ago |
|---|---|---|
| Overnight | 7.88% | 7.81% |
| 1 month | 7.94 | 7.94 |
| 3 month | 8.06 | 8.13 |
| 6 month | 8.19 | 8.25 |
| 1 year | 8.50 | 8.63 |
| **EURODOLLAR BONDS** | | |
| **Average Yield** | | |
| Medium Term (5 to 7 yrs.) | 10.00% | 10.12% |
| Long Term (7 to 15 yrs.) | 10.50 | 10.62 |

**FOREIGN EXCHANGE SPOT RATES**

| New York Opening (10/18/85) | U.S. $ Equivalent | Currency Per U.S. $ |
|---|---|---|
| Belgium | .01874 | 53.3500 |
| Canada | .7322 | 1.3657 |
| Denmark | .1048 | 9.5375 |
| France | .1244 | 8.0393 |
| Germany | .3783 | 2.6347 |
| Italy | .0005618 | 1780.00 |
| Japan | .004644 | 215.33 |
| Mexico | .002497 | 400.50 |
| Netherlands | .3364 | 2.9730 |
| Switzerland | .4619 | 2.1648 |
| U.K. | 1.4250 | .7018 |

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